Bladex (NYSE: BLX)

Q2 2026 Earnings Call Transcript

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Call Participants

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Presentation

Operator
Good morning, ladies and gentlemen, and welcome to the Bladex Second Quarter 2026 Earnings Conference Call. A slide presentation is accompanying today's webcast and is also available on the Investors section of the company's website, www.bladex.com. Please note today's conference call is being recorded.

I would now like to turn the call over to Mr. Jorge Salas, Chief Executive Officer. Sir, please go ahead.

Jorge L. Salas
Chief Executive Officer
Good morning, everyone, and thank you for joining us today to discuss Bladex results for the second quarter of 2026. I will begin with the key highlights for the quarter and then Annette, our CFO, will walk you through the financials in more detail.

After that, I will come back and provide a quick update on our strategic execution, our view of the macro environment and our outlook for the rest of the year. Finally, we will open the call for questions. Let me start with the headline. We are thrilled with our performance this quarter, not only because we reached record levels across several area of the business. But more importantly, because we're starting to see the strategy we shared with you all at our Investor Day translate into tangible results. We delivered strong commercial execution, further strengthened our funding base and continue to broaden our revenue mix just like we anticipated.

The commercial portfolio reached a record of $13 billion, up 8% from March, 20% year-over-year and 17% since year-end. Both loans and contingencies also closed at new heights. This is exactly the kind of disciplined capital deployment we had in mind when we completed the AT1 issuance last year. We're putting the capital to work to support growth while maintaining a strong capital position. On the funding side, deposits reached a record of $7.9 billion, 8% sequentially and 20% since December. Funding kept pace with the expansion of the commercial portfolio and our diversified deposit base continues to provide a solid foundation for balance sheet growth. Turning to revenues.

Net interest income reached another new high, increasing 4% for the first quarter, supported by higher average loan balances and disciplined balance sheet management. At the same time, margins remain under pressure. Net interest margin declined by 10 basis points to 2.24%, mainly reflecting higher average liquidity and continued competitive pressures on spreads. This remains consistent with the environment we discussed during the first quarter call. Non-interest income is perhaps the biggest highlight of the quarter. It is also a fundamental part of the strategy presented at the Investor Day. The focus is to diversify the bank's revenue base, which is particularly important when there is margin compression. This focus is clearly turning into visible results. Non-interest income reached a record of $25 million for the quarter, up 86% from the first quarter and represented 26% of total revenues in the quarter.

This is meaningful progress in making our earnings less dependent on interest margin. Just a few years ago, non-interest income over total income was close to 15%. Our loan syndications team had one of the best quarters ever, and the client derivative business is also starting to gain traction in line with plan. The pilot transactions continue to perform well and are primarily linked to structured transactions of our clients. Annette will take you through the composition of non-interest income and the activity in these businesses in more detail in a few minutes, expenses, on the other hand, increased as expected and as we continue to execute our strategic initiatives. Revenues, however, grew faster than costs. As a result, efficiency improved meaningfully to 24.1% for the quarter. Now as we have said before, we do expect expenses to increase in the second half of the year as we continue to execute the investment plan contemplated for 2026. Provisions also increased during the quarter, mainly as a result of the strong portfolio growth and our prudent approach to risk management. Overall, asset quality remains sound. Finally, net income reached a record of $66.5 million, up 18% from the first quarter, which translates into a return on equity of 16.4%.

Our Tier 1 capital ratio closed the quarter at 16.6%, still comfortably above our target and providing capacity to continue supporting disciplined growth. This was an all-around excellent quarter. We've put capital to work, broaden our revenue base and improve profitability and efficiency despite continued pressure on margins. With that overview, let me now hand it over to Annette for a more detailed review of the financial results. Annette, your turn.

Annette van Hoorde de Solís

Executive VP & CFO

Thank you, Jorge, and good morning, everyone. The second quarter was another strong period for Bladex with several key balance sheet and revenue metrics reaching new highs. Commercial activity and deposits continue to expand, net interest income increased and fee generation was particularly strong, while asset quality and capital remains sound.

Turning to our financial performance. Net income reached $66.5 million, up 18% from the first quarter. Return on average assets was 2% and while adjusted return on equity improved to 16.4%. For the first half of the year, net income totaled $122.8 million, resulting in a return on average assets of 1.9% and an adjusted return on equity of 15.3%. Given the transactional nature of structuring revenues, the quarterly contribution of noninterest income would naturally vary. Even so, based on our first half performance and expectations for the remainder of the year, we are reaffirming our full year adjusted ROE guidance of 14% to 15%.

Let me now walk you through the key drivers behind these results, beginning with the commercial portfolio. The commercial portfolio ended the quarter at $13 billion, up 8% from the first quarter and 20% year-over-year. Growth was broad-based across loan and contingencies, reflecting continued execution across our core markets. Loan increased to $10.5 billion, up 8% from the first quarter and 22% year-over-year, while contingencies reached $2.3 billion increasing 11% from the first quarter and 5% year-over-year.

Importantly, average loan balances increased steadily throughout the quarter, providing the primary support for higher net interest income despite continued pressure on lending spreads. Commercial activity remained healthy across both trade finance and mediumterm lending. This quarter's strong growth was driven by strategic industries and high-quality client relationships that support sustainable net interest income generation rather than by pursuing volume for its own sake. We also continue to originate mediumterm transaction with attractive risk-adjusted returns, supporting a more balanced asset mix and enhancing the quality of earnings over time. At the same time, strong trade-related activity preserve the portfolio predominantly short-dated profile with approximately 65% of the portfolio scheduled to mature within the next 12 months. Looking ahead, we expect portfolio growth to continue at a steady and disciplined pace, consistent with our long-term strategy. Quarter-over-quarter growth was led by Panama and Argentina, with additional contribution from Dominican Republic, Peru and Brazil. The portfolio remained well diversified across countries and industries. No single country accounted for more than 14% of total exposure.

Financial institutions represented 27% of the portfolio, while corporate exposures continue to reflect the diversity of regional trade flows. The commercial bank portfolio remained broadly stable at $226 million. Given current market conditions, we continue to prioritize lending opportunities over incremental investment purchases. This quarter demonstrates our ability to grow the portfolio while maintaining disciplined underwriting, broad diversification and prudent capital deployment.

Turning now to liquidity and the treasury investment portfolio. At quarter end, liquidity assets totaled approximately $1.9 billion, representing 13.3% of total assets and remaining well within regulatory requirements and our risk appetite. Our liquidity profile remains conservative. A significant portion is held at Federal Reserve Bank of New York, with the remainder primarily placed with high-quality financial institutions and multilateral organizations. The treasury investment portfolio totaled $1.4 billion at quarter end. It remains highly investment grade, short in duration and broadly diversified outside Latin America.

In addition to providing credit diversification, the portfolio serve as a source of contingent liquidity as these securities are eligible to be placed through our New York agency at the Federal Reserve discount window. Turning now to asset quality. Overall, credit quality remains sound, supported by disciplined underwriting, broad portfolio diversification and proactive credit risk management. At quarter-end, 98.4% of total credit exposure or $14.2 billion remain in Stage 1. Stage 2 exposures declined to 1.1% or $162 million, reflecting credit improvements, repayments, maturities and the migration of our previously identified exposure to Stage 3.

Stage 3 exposure increased to 0.5% or $75 million, primarily reflecting the migration of debt exposure, which has been under enhanced monitoring. As part of our proactive risk management approach, we reduced the overall exposure by selling the bilateral loan component. The remaining deferred-payment letter of credit exposure was reclassified to Stage 3 and remains currently reserved. Importantly, this migration was limited to a single exposure and does not reflect a broader deterioration in the portfolio. Provisioning expense totaled $8.6 million compared with $4.7 million in the first quarter.

Stage 1 provisioning accounted for $6.4 million, primarily reflecting continued portfolio growth. The remaining provision expense was largely associated with the specific exposure discussed earlier. As a result, cost of risk was 26 basis points compared with 14 basis points in the previous quarter. The quarter also included $8.6 million in write-off related to two fully reserved commercial loans. Because these write-offs were charged against existing allowances, they had no additional impact on second quarter results. We also recorded $1.1 million in recoveries from previously written off loans.

As a result, Total reserve ended the quarter at $93.8 million, providing 1.25x coverage of impaired credit. These actions reflect our proactive approach to credit risk management, identifying potential deterioration early, actively reducing exposure when appropriate

and maintaining prudent reserve levels. Together with disciplined underwriting and a well-diversified portfolio, they continue to support a sound asset quality profile. Turning now to funding. Deposits remain one of the quarter's key strength and continue to serve as a central pillar of our funding strategy. Deposits reached a new high of $7.9 billion at quarter end, increasing 8% from the first quarter and representing approximately 64% of total funding. Our deposit base remains well diversified. Central Bank and Class A shareholders accounted for 34% of deposits, while financial institutions represented 27%; corporations, 23%; brokers 15% and multilateral institutions 1%. Yankee CD balances also reached a new high, ending the quarter at nearly $2 billion. Continued demand reflects the strength of our distribution platform across the Americas, Europe and Asia. During the quarter, we also introduced green Yankee CDs with proceeds allocated to eligible green assets originated by our commercial team. This initiative further broadens our investor base while expanding our sustainable funding alternatives. Beyond deposits, we continue to selectively evaluate medium-term funding opportunities that enhance diversification, extend funding duration and improve overall funding efficiency.

Let me now turn to capital. The Basel III Tier 1 ratio ended the quarter at 16.6% compared with 17.9% in the first quarter and remains above our 15% to 16% operating range. The regulatory capital adequacy ratio under Panama's framework stood at 14.3%, well above the regulatory minimum. The movement in Tier 1 reflects the continued deployment of capital to support commercial portfolio growth, particularly in medium-term transactions. This is consistent with the strategy we outlined following the AT1 issuance and with our expectations that capital ratios would gradually move toward our operating range as we put the capital to work. Our capital base continue to provide ample capacity to support future growth, absorb potential volatility and maintain the financial flexibility expected by our stakeholders.

Moving now to net interest income and margins. Net interest income increased to $73.3 million, up 4% from the first quarter. Higher average loan balances more than offset tighter lending spreads allowing net interest income to grow despite continued pressure on margins. Net interest margin was 2.24% during the quarter, down 10 basis points from the first quarter while net interest spread declined to 1.64%. The decline in NIM primarily reflect higher average liquidity and continued competitive pressure on short-term lending spreads.

As abundant regional liquidity and strong demand for high-quality assets continue to affect pricing. Against this backdrop, we remain disciplined in our approach to short-term lending. Pursuing transactions at tighter spread only where risk-adjusted returns remain attractive. These additional volumes generate incremental net interest income while preserving the flexibility to reprice the portfolio as market conditions evolve. At the same time, medium-term origination with attractive risk-adjusted returns provided an additional earning contribution and held partially offset the pressure on short-term lending spreads.

On the funding side, continued deposit growth increased the contribution of lower cost funding to the balance sheet, partially offsetting the impact of tighter asset spreads. At this time, we are maintaining our full year NIM guidance while continuing to monitor competitive conditions, portfolio repricing and funding costs closely. Let me now turn to non-interest income. One of the key highlights of the quarter and an increasingly important contributor to our financial performance. Non-interest income, excluding the impact of hedging derivative reached $25.1 million, up 86% from the first quarter.

Within this total, fees and commissions amounted to $23.3 million. Letter of credit and guarantees generated $9.5 million, supported by a stronger transaction volumes and increased trade finance activity. The quarter also benefited from the distribution of a letter of credit facility originated by our trade finance team. Credit commitments contributed $5.2 million, providing a stable and recurring source of income, primarily from project finance transactions and medium-term committed facilities. Structuring and distribution generated $7.9 million in upfront structuring and syndication fees.

During the quarter, the team completed 7 transactions across 6 countries, supporting both financial institutions and corporate clients. Year-to-date, Bladex has mobilized approximately $2.2 billion while retaining only 26% of that volume in our balance sheet, highlighting the capital-efficient nature of this business. Client derivative generated an additional $1.3 million during the quarter. As Jorge mentioned, the pilot transactions continue to perform well and are primarily linked to structured transactions for our clients. This activity continues to progress in line with the strategy we presented at the Investor Day.

As a result, non-interest income, excluding hedging derivatives, represented 25.4% of total revenues reinforcing the diversification of our earnings and underscoring is increasingly meaningful contribution to profitability. Turning now to expenses and efficiency. Operating expenses totaled $23.8 million, up 8% from the first quarter. For the first half, expenses remain align with our 2026 plan, while revenue growth outpaced expense growth. This generated positive operating leverage and improve the efficiency ratio to 24.1% from 26.5% in the prior quarter.

As Jorge noted, expense execution is seasonally weighted towards the second half of the year as a strategic initiative move into implementation. At this time, we continue to expect full year efficiency ratio to remain within our guidance range of 27% to 28%. As we invest, cost discipline remains a management priority. We are allocating resources selectively with a clear focus on operating leverage and efficiency. In closing, the second quarter demonstrated a strong and balanced execution across the franchise. Reinforcing our confidence in the full year outlook and our ability to continue delivering disciplined profitable growth while preserving the strength of our balance sheet. This concludes my review of the second quarter financial results. Jorge, back to you.

Jorge L. Salas

Chief Executive Officer

Thank you, Annette. Let me just close with a few comments on strategy execution, the macro environment and our outlook for the rest of the year. On strategy, the first half of the year provides a good view of how our 2030 plan is beginning to move from design into execution. The commercial growth and revenue diversification pillars are developing in line with the direction we shared at the Investor Day. Annette has just taken you through the financial detail, so I will focus more on the next part of the build, the transactional services pillar. Transactional services is a little different from the other two pillars. As I mentioned during our Investor Day back in March, this is a longer-term build because it's more intensive in terms of technology, controls, compliance, and general operational readiness before we're able to scale. That said, the Phase 1 of the new online banking platform is already in place, and we're gradually adding letters of credit clients. We're also very close to completing the onboarding of 2 additional corresponding banking clients. In parallel, we remain focused on end-to-end process redesign and automation, the objective here is to make sure we scale this part of the business with the right controls and operating foundations from the beginning. Now turning on to the macro environment. The global economy continues to show resilience, but uncertainty undoubtedly remains high. Geopolitical trade tensions, together with renewed inflation risks, continue to create a challenging backdrop for economic activity in financial markets. In the United States, inflation has shown signs of renewed pressure, while the labor market remains relatively strong.

As a result, the Federal Reserve has adopted a more cautious tone with rates likely to remain stable for longer. In Latin America, the electoral cycle was an important focus for markets during the quarter, particularly because presidential elections took place in Colombia and Peru. The electoral results eased political uncertainty and boosted market confidence, but investors still concentrate on governance, fiscal performance and policy direction. Overall, regional assets performed well during the quarter, supported by constructive investor sentiment and tighter credit spreads. Looking ahead, our view for the rest of the year remains broadly unchanged. We are encouraged by our execution during the first half of the year and remain on track on the key priorities we established for 2026. At the same time, we are realistic about the environment. Margin pressure has been stronger than we originally expected, mainly due to tight spreads, abundant liquidity and strong competition for high-quality assets in the region. We are managing the pressure through disciplined portfolio growth, funding execution, a broader revenue mix and continued cost control. Given this context, we reiterate our full year guidance. We will continue to manage the business with discipline, maintaining our focus on risks, returns and the quality and sustainability of our earnings. That concludes our review for the second quarter. Operator, you can now open the line for questions.

Question and Answer

Operator

Our first question comes from Ricardo Buchpiguel with BTG Pactual.

Ricardo Buchpiguel

Banco BTG Pactual S.A., Research Division

I have the two here on my side. So you comment that the competitive environment became more -- a little more intense in the second half -- second quarter of the year, pressuring spreads. And I wanted to understand whether you continue to see this trend and if your appetite to continue growing has changed in any way for the second half of the year, particularly as you -- your guidance now implies a sharp deceleration for the second half.

And also in a way related to this, I wanted to check if you consider the opportunities that credit might bring to improve client relationship and increase non-interest income penetration when you are deciding how much you want to grow per client?

And finally, I just wanted to ask about asset quality. The coverage ratio is now closer to 120%. And historically low level when you compare it to the numbers since 2020. So I wanted to understand if it makes sense to expect some pickup in provisions versus what we have been seeing in the last few quarters or perhaps only the NPL formation going downward will improve the coverage ratio in the coming quarters?

Jorge L. Salas

Chief Executive Officer

Thank you, Ricardo. I'm going to tackle the margins questions, and then Annette will tackle the asset quality question. Yes, I mean, as you said, the margin pressure was stronger than we initially expected. I mean that's -- there is no change in appetite, and given our business model and given that we maintain around almost 70% of our commercial book maturing in less than a year, times like this of excess liquidity, put more pressure on Bladex than versus the average bank.

Now on the other hand, the strategic plan was designed exactly to navigate this kind of environment. We have seen -- we've been quite successful, I think, in containing much of the compression of the short-term deals through the execution of our core strategy. I mean, more structured products such as supply chain finance factoring account receivable financing, commercial prepayments, among others. The proportion of such deals will keep increasing, and we expect to continue growing and alleviate the periods of margin pressures like the one we have now. Same is happening with the medium-term transactions. I mean these are syndicated in our project finance deals. They come with a pickup on spread and also with more fees.

I mean, finally, on the funding side, I mean, that's also helping us contain the NIM since we're gathering more and more deposits has grown as a percentage of the funding base. I mean needless to say, as we scale the transactional deposits platform, the contribution of operational deposits to a lower cost of funds will be increasingly meaningful, as I said before, but that should come in the latter part of the plan. So all in all, there is more pressure on margins than we had expected. We do not -- will not change the appetite. But again, the repricing should help when conditions change. Annette you want to -- do you -- I don't know if that answers your question, Ricardo.

Ricardo Buchpiguel

Banco BTG Pactual S.A., Research Division

That's very clear. I just wanted to understand if you are not changing the credit appetite -- why not increase the portfolio guidance, right? You're already growing around 20% this year. I'm not sure -- I understand that the portfolio has short duration, but I just wanted to understand the idea here.

Jorge L. Salas

Chief Executive Officer

Yes, good point. I mean we're retaining the guidance until we have better visibility on the second half of the year. I mean there might be upside here. But rest assured, we will not chase volume just simply to raise the number.

Operator

Our next question comes from...

Jorge L. Salas

Chief Executive Officer

Wait a second to answer on credit quality.

Annette van Hoorde de Solís

Executive VP & CFO

Ricardo. As we mentioned in the call, credit quality remains very strong in the portfolio. Only 98% of the total credit exposure is -- I'm sorry, Stage 1 still represents 98% of total exposure with an extremely healthy portfolio. And in Stage 2, we can see our proactive credit risk management declining this Stage 2 exposure to 1.1% of our credit portfolio. This decrease was mainly due to credit improvement that we saw in this stage, repayments and maturities. And as we mentioned, we moved 1 single exposure from Stage 2 to Stage 3. This exposure corresponds to a single client in the petrochemical sector in Brazil that we already mentioned in prior calls. And this movement made the Stage 3 increase to 0.5% of the portfolio. As we mentioned in the call, this was only a single client, and this client had -- the exposure to this client and have 2 facilities, 1 that was a bilateral loan, which was reduced during the quarter. And the remainder, which was a deferred payment letter of credit was moved to Stage 3 and remains very well reserved.

As a result, we increased provisions $8.6 million this quarter. Most of this, around $6.4 million was due to the growth of the portfolio and a total reserve increased to $93 million. And looking ahead, we do not expect non-performing loans to increase from the current levels. And we estimate that the coverage will move from the current 1.25 to around 1.5 to 1.6 towards the end of the year.

Operator

Our next question comes from Andres Soto with Santander.

Andres Soto

Santander Investment Securities Inc., Research Division

I have a quick question. If you guys are okay, I prefer to go one by one. The first one is on loan growth. We saw a significant acceleration in commercial loan growth despite competitive pressures. How much of this growth is reflecting structural gains from new businesses, such as trade finance, structural lending? Or is increased market activity in the countries where you guys operate? And as you look into second half of 2026 do you see room for this robust growth to remain for the rest of the year?

Jorge L. Salas

Chief Executive Officer

Yes. Andres, on loan growth, I mean I would say it's split like evenly between our typical short-term lending, some of it with structured deals. And part of it, around half was also long-term type deals, mainly syndications but also some project finance deals in Panama and Argentina and the Dominican Republic. So as I said before, there might be upside in our guidance of loan growth, but we're not ready to say that yet.

Andres Soto

Santander Investment Securities Inc., Research Division

Understood. And my second question is on the fee income this quarter, which show another record level. Can you please help us distinguish how much of this performance can be considered recurring versus one-offs, which I believe were a few over the quarter?

Jorge L. Salas

Chief Executive Officer

Yes. So there are 3 types of fee income here. The syndication deals is -- I mean that we don't want to necessarily extrapolate for the rest of the year. We had some deals that were expected to close on the first quarter that turned into the second quarter. So I mean, there's -- it's hard to predict on the syndication deals.

On the other hand, the letters of credit has been steadily growing and progressing according to plan. And we're also starting to see, as I mentioned during the call, the derivatives, which is starting to gain traction. So a short answer is on the syndications, it's hard to predict. We have a good pipeline but deals move around between quarters. But the rest is, I would say, it's more structural, steady growth. In any case, this was an exceptional quarter in terms of fees. And for your projections, I do not advise to simply multiply for the rest of the year because of the syndication part.

Samuel Canineu

Executive Vice President of Business & Chief Commercial Officer

Can you hear me? Can I just complement? You guys hear me?

Jorge L. Salas

Chief Executive Officer

Sam. Okay, go ahead.

Samuel Canineu

Executive Vice President of Business & Chief Commercial Officer

Yes. This is Samuel Canineu, the Chief Commercial Officer. I just want to complement that if you look -- just to put what you asked in perspective, just 1 year ago, when we announced second quarter of 2025, then we had the Staatsolie deal in Suriname that was, let's say, a large historical one-off. As much as we can, as Jorge referred to not multiply the revenues, the structuring fees for syndicated deals by 4. I think the fact that this year, second quarter or if we add the first semester of this year, we are in total fees and in structuring fees equal or above last year without depending on one single deal.

And now this quarter, we actually had 7 deals, which was a record within a quarter. I'm not saying that it's not -- it's again to be multiplied but shows a direction, a direction of dependency on less individual transactions. Of course, there were exceptional transactions this quarter. for example, the acquisition of Banistmo in Panama, which we were one of the co-lenders and that is a representative transaction. But I think the most important in that business is the direction is that we have with a bigger balance sheet with more products with closer to our clients being ready to access for episodic transactions such as the acquisitions, for example, are the ones that require certainty of funds, which should be more in a better position to continue to grow that we have presented in the last few years. Sorry, back to you.

Andres Soto

Santander Investment Securities Inc., Research Division

It was very helpful and congratulations to you on impressive commercial results. And my last set of questions is related to the strategic plan. On transaction banking, you guys mentioned that the first phase of the online banking platform is already operational and that you're close to onboarding two additional corresponding banking clients. At what point should investors expect to see this to be reflected in terms of improved funding costs in your numbers.

Jorge L. Salas

Chief Executive Officer

Yes. Thank you for that question. It will be in the second part of the plan, Andres. So we're still building capabilities. We have one correspondent bank working with us, two will join this year between 5 and 10 will join next year, but the meaningful contribution on cost of funds you'll see in the second part of plan. That means years 4 and 5, you'll have a meaningful contribution.

Andres Soto

Santander Investment Securities Inc., Research Division

Jorge. And we are already 4 months after the Investor Day. Where will you say execution is running ahead of your original expectations and where it has proven more challenging so far?

Jorge L. Salas

Chief Executive Officer

Yes, it's been just 4 months. We are right on track. We're expecting to complete the treasury platform by the end of this year, the first part and then the second part first half of next year. Online banking is on track. Compliance and monitoring systems are also on track. Today, I cannot say we are ahead nor behind in any of the initiatives related to the transactional services pillar, right on track.

Operator

Our next question comes from Ricardo Briz with Matheson . Happy to see increased exposure to Argentina and more recently, in El Salvador. Can you provide more color in the nature of exposure in these two countries? Is this mainly loans to banks and corporates. In a related note, should we expect to see some exposure in Venezuela in the next few quarters. And congratulations on the continued solid performance.

Jorge L. Salas

Chief Executive Officer

Yes. Thank you for your question. Yes, Argentina was mainly oil and gas sector and some of it is short-term imports of gas in their winter period. Salvador is mainly short-term financial sector related, everything within our natural course of business. Regarding Venezuela, I'm going to say our position remains unchanged. Venezuela might represent an upside scenario over time, but it's not included anywhere in our current projections and our exposure today is 0. We know the market. It was at some point relevant for Bladex, approximately 5% of our total portfolio a few years ago. And we are continuing to assess the appropriate timing and risk return conditions. If we reenter or I'm going to say when we reenter, it will be gradual, selective and always consistent with our credit, legal and compliance framework.

Operator

Our next question comes from Juan Soto with Bancolombia. How sensitive is the current credit portfolio to potential slow down in Latin America trade activity or commodity prices. Operating expenses increased 14% year over year due to the investment in technology, modernization and personnel. When should investors expect these investments to translate into measurable effective gains?

Jorge L. Salas

Chief Executive Officer

So I'm going to tackle the first part of the commodities in Latin America, and then you'll tackle the expenses part. I mean, we've seen volatility in the oil commodity. That's the main commodity that is -- represents part of our -- significant part of our portfolio. The net effect of higher oil prices is generally positive for Bladex.

Our longer-term exposure is concentrated in competitive low-cost producers, where high prices can strengthen the cash flows and reduce credit risk. While the cargo values can increase demand and short-term trade financing. So it's overall positive. There are offsets, of course, importers may face higher working capital needs inflation and profitability pressure and severe volatility can tighten the financial conditions, many, many importer exposures are the strong national oil companies, our clients and have been our clients for decades. And the short-term tenor of the portfolio allows us to reprice quickly and reposition if needed.

So overall, this is more of a tailwind than a headwind and that's the way we see it. We're not seeing any slowdown in the region. On the contrary we're seeing more and more activity partially because of the shift to the right of very important countries in the region. Annette do you want to tackle the second one?

Annette van Hoorde de Solís

Executive VP & CFO

Regarding your operating expenses questions, I think we can say that we are already seeing tangible efficiency gains from the investment that we have done since the beginning of the initial strategic plan. We have been investing in technology. We have been investing in people. And as you can see, we have bigger teams in the commercial area that are able to originate more sophisticated transactions to make sure the revenues from fee income remains steadily increasing as part of our main components of profitability and also investment in technology, we are already seeing the impact in the depreciation expense of the trade platform that was implemented last year, and that is already providing additional income to the bank.

As you can see, the trade finance, the letter of credit income that we see in the balance sheet is increasing organically and sustained manner and also allow us to pursue other types of transactions like the one that we did this quarter, which was the structuring of letter of credit facility that supported part of a project finance transactions that we closed this quarter. So the -- we are already seeing tangible gains. Our efficiency ratios are still very attractive. I mean what we're making sure is that we keep investing in our strategic initiative and making sure that the return on these are able to come to the balance sheet in a short term.

Jorge L. Salas

Chief Executive Officer

Point I mean the investment plan it's designed throughout the plan so that the efficiency ratio is always between the 27% and 29% ratio. So you're not going to see a spike in efficiency over 30% throughout the plan.

Annette van Hoorde de Solís

Executive VP & CFO

And Just to add to that and as we shared in the Investor Day, we do expect the efficiency ratio, as we said in this call, to be between 27% and 28% towards the end of the year. And the year '26 and '27 during the execution of the strategic plan is going to have increase in the efficiency ratio. And then towards the second half of the strategic plan, as Jorge mentioned, where we're going to see the most impact from the operating deposits, then that efficiency ratio will decrease towards 25% to 26%.

Operator

Okay. Thank you very much. That's all the questions we have for today. I'll pass the line back to the Bladex team for their concluding remarks.

Jorge L. Salas

Chief Executive Officer

Yes. Thank you all. As I said, this was an excellent quarter with record results. But more importantly, we are excited to keep seeing strategy turn into tangible results. Thank you all for participation, and have a good day. Goodbye now.

Operator

This concludes today's conference call. You may now disconnect.